

## Message Text

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P 150259Z FEB 75

FM SECSTATE WASHDC

TO USDEL RIYADH PRIORITY

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E.O. 11652: N/A

TAGS: OECD,ETRD

SUBJECT: OECD-XCSS INFORMAL RESTRICTED GROUP: COMMODITY  
ISSUES

FOR UNDERSECRETARY ROBINSON

1. FOLLOWING IS BRIEFING MATERIAL ON COMMODITY ISSUES FOR  
USE AT FEBRUARY 20 MEETING OF OECD-XCSS INFORMAL RESTRICTED  
GROUP. TREASURY HAS WITHHELD CLEARANCE ON THE TEXT.

BEGIN TEXT

PROBLEM:

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OECD SECRETARY GENERAL VAN LENNEP HAS PROPOSED A  
DISCUSSION OF COMMODITY ISSUES IN AN INFORMAL MEETING OF  
THE BUREAU OF THE XCSS ON FEBRUARY 20. HE PERCEIVES AN  
URGENT NEED FOR ACTION BY DEVELOPED COUNTRIES IN THE

AREA OF COMMODITIES TO (L) COUNTER AN OIL-COMMODITY LINK BEING PUSHED BY THE ALGERIANS; (2) MITIGATE THE EFFECTS OF CURRENT COMMODITY PRICE DECLINES ON THE DEVELOPING COUNTRIES; AND (3) ENSURE SUFFICIENT SUPPLIES OF RAW MATERIALS FOR THE LONG RUN. HE HAS SUGGESTED AS CONCRETE STEPS ECONOMIC STOCKPILES AND THE EXPANSION OF THE IMF COMPENSATORY FINANCING FACILITY. (IT IS NOT CLEAR WHAT VAN LENNEP

HAS IN MIND ON THIS LAST POINT: WHETHER HE IS SUGGESTING EXPANDED IMF COMPENSATORY AND BUFFER STOCK FACILITIES AND/OR THE DEVELOPMENT OF A CENTRAL BUFFER FUND WITHIN THE IMF.)

U.S. OBJECTIVES:

THE MAJOR U.S. OBJECTIVES IN A DISCUSSION OF COMMODITY ISSUES AT THE XCSS ARE TO INITIATE AN EXCHANGE OF VIEWS AT THE POLICY LEVEL AMONG OECD MEMBERS, TO DISCOURAGE MOVES SEEKING BILATERAL SOLUTIONS TO SUPPLY/ACCESS ANXIETIES (OUTSIDE A MULTILATERAL FRAMEWORK) AND TO EXPLORE POSSIBILITIES FOR US COOPERATION WITH OTHER OECD COUNTRIES ON FUTURE INITIATIVES IN THE AREA OF COMMODITIES. WE WOULD LIKE TO AVOID SELECTION OF SOLUTIONS BEFORE PROBLEMS ARE IDENTIFIED AND POLICY OPTIONS ARE EXPLORED.

TALKING POINTS:

1. THE US AS BOTH A MAJOR PRODUCER AND CONSUMER OF COMMODITIES SHARES THE CONCERNS OF OTHER OECD MEMBERS OVER DEVELOPMENTS IN COMMODITY TRADE DURING THE LAST TWO YEARS AND BELIEVES THERE IS A STRONG NEED TO AVOID THE GROWING CONFRONTATION BETWEEN DEVELOPING COUNTRY PRODUCERS AND DEVELOPED COUNTRY CONSUMERS.

2. BOTH DEVELOPED AND DEVELOPING COUNTRIES AND LIMITED OFFICIAL USE  
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PRODUCERS AND CONSUMERS HAVE A SIGNIFICANT INTEREST IN ORDERLY MARKET CONDITIONS BOTH TO MINIMIZE DISRUPTIVE EFFECTS ON ECONOMIES AND TO STABILIZE INVESTMENT FLOWS.

3. THE US CONSIDERS THAT CLOSE COORDINATION IN THE COMMODITY AREA MAY BE REQUIRED, AND WE ARE INTERESTED IN EXAMINING OPTIONS FOR SOLVING PROBLEMS IN COMMODITY TRADE. WHILE RECOGNIZING THE INTERRELATIONSHIP OF ALL COMMODITY PROBLEMS WE DO NOT BELIEVE THAT THE SAME SOLUTIONS ARE NECESSARILY SUITABLE FOR ALL (E.G., MECHANISMS FOR DETERMINING OIL PRICES MIGHT NOT BE APPLICABLE TO OTHER COMMODITIES).

4. THE US GOVERNMENT IS CAREFULLY EXAMINING OUR RAW MATERIALS POLICY AND IS GIVING IN-DEPTH CONSIDERATION TO DIVERSIFICATION OF SOURCES OF SUPPLY AND DOMESTIC RESOURCE UTILIZATION. AS YET WE HAVE REACHED NO DEFINITIVE CONCLUSIONS ON THESE ISSUES AND AGREE THAT AN EXCHANGE OF VIEWS AT THE POLICY LEVEL AMONG OECD COUNTRIES WOULD BE USEFUL.

5. THE US STRONGLY SUPPORTS THE WORK PROGRAM ON COMMODITIES BEING CARRIED OUT IN THE OECD TRADE COMMITTEE WORKING PARTY AND CONSIDERS THE OECD AN APPROPRIATE FORUM FOR SUBSEQUENTLY EXAMINING POSSIBLE POLICY OPTIONS.

6. IN THIS CONNECTION, WE BELIEVE THAT COMMODITY ISSUES MIGHT APPROPRIATELY BE INCLUDED ON THE AGENDA FOR THE MARCH MEETING OF THE XCSS. WE WOULD SUGGEST THAT SECRETARIAT PREPARATIONS FOR THIS MEETING INCLUDE AN EXAMINATION OF COMMODITY PROBLEMS, TAKING INTO ACCOUNT THE FACTUAL AND ANALYTICAL WORK ALREADY COMPLETED IN THE OECD TRADE COMMITTEE AND THE IDEAS EXPRESSED IN THIS INFORMAL MEETING.

BACKGROUND:

COMMODITY PROBLEMS HAVE RECEIVED PRIORITY ATTENTION IN VARIOUS FORA OVER PAST YEAR (SIXTH SPECIAL SESSION OF THE UN GENERAL ASSEMBLY, UNCTAD, FAO, OECD, DAKAR CONFERENCE ON COMMODITIES).

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AT THE LDC DAKAR CONFERENCE ON COMMODITIES WHICH ENDED FEBRUARY 8, A NUMBER OF RESOLUTIONS WERE ADOPTED DEALING WITH A RANGE OF LDC COMMODITY PROBLEMS AND PROPOSED SOLUTIONS. THE CONFERENCE CALLED FOR SIGNIFICANTLY INCREASED COOPERATION AMONG DEVELOPING COUNTRIES IN THE AREA OF COMMODITIES; PROPOSED AN UMBRELLA ORGANIZATION FOR PRODUCER ASSOCIATIONS; ENDORSED AN INTEGRATED PROGRAM FOR COMMODITIES ALONG THE LINES OF THE UNCTAD PROPOSAL DESCRIBED IN PARAGRAPH BELOW; CALLED FOR A SPECIAL BUFFER STOCK FUND TO BE FINANCED BY ALL DEVELOPING COUNTRIES, AND SUPPORTED INDEXATION. THE CONFERENCE ALSO CALLED FOR A BROADENING OF THE SCOPE OF THE UPCOMING PRODUCER/CONSUMER MEETING ON OIL TO INCLUDE ALL RAW MATERIALS.

AT THE CURRENT SESSION OF THE UNCTAD COMMITTEE ON COMMODITIES (SCHEDULED TO CONCLUDE FEBRUARY 2L) THE PRINCIPAL ISSUE UNDER DISCUSSION IS THE UNCTAD PROPOSAL FOR AN INTEGRATED PROGRAM FOR COMMODITIES. THE PROPOSAL CONCENTRATES ON TWO MAJOR TECHNIQUES TO DEAL WITH COMMODITY TRADE PROBLEMS--INTERNATIONALLY FINANCED

COMMODITY STOCKS AND GOVERNMENT-BACKED MULTILATERAL

PURCHASE AND SUPPLY COMMITMENTS. THE UNCTAD PROPOSAL ALSO INCLUDES ACTION OF A MORE INDIRECT NATURE SUCH AS IMPROVED IMF COMPENSATORY FINANCING AND PROVISION FOR FURTHER PROCESSING BY DEVELOPING COUNTRIES OF THEIR RAW MATERIAL EXPORTS THROUGH REDUCED (OR PREFERENTIAL) TARIFFS AND NON-TARIFF BARRIERS ON LDC PROCESSED MATERIALS AND FINISHED GOODS. THE SUGGESTIONS OF VAN LENNEP ON STOCKS AND EXPANDED IMF FACILITIES APPEAR TO PARALLEL SOME ELEMENTS OF THE UNCTAD PROPOSAL.

A JANUARY MEETING OF AN OECD TRADE COMMITTEE WORKING PARTY INDICATED A RANGE OF VIEWS ON THE UNCTAD PROPOSAL FOR AN INTEGRATED PROGRAM FOR COMMODITIES, ALTHOUGH THERE WAS AGREEMENT TO ATTEMPT TO AVOID CONFRONTATION WITH THE LDCS AT THE COMMITTEE ON COMMODITIES. OECD COUNTRIES AGREED THAT SMOOTHING OUT WIDE FLUCTUATIONS IN COMMODITY PRICES WAS AN ACCEPTABLE GOAL, BUT REJECTED THE IDEA OF LIMITED OFFICIAL USE  
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MAINTAINING PRICES ABOVE A LONG-TERM EQUILIBRIUM LEVEL. ATTITUDES AMONG OECD COUNTRIES ON THE UNCTAD INTEGRATED PROGRAM RANGE FROM THE GERMAN'S HIGHLY NEGATIVE VIEW OF AN INTEGRATED APPROACH TO A READINESS ON THE PART OF THE SCANDINAVIANS, BELGIUM, FRANCE AND THE NETHERLANDS TO FACE THE PROSPECT OF EVENTUALLY NEGOTIATING COMMODITY ISSUES ON THE BASIS OF THE UNCTAD PROPOSAL OR SOME SIMILAR, BUT LESS AMBITIOUS, CONCEPT. THERE WAS, HOWEVER, A CONSENSUS TO EXAMINE THE PROPOSED INTEGRATED APPROACH THROUGH FURTHER STUDY ON A COMMODITY-BY-COMMODITY BASIS.

THE OECD TRADE COMMITTEE MEETING IN NOVEMBER 1974 APPROVED THE WORK PROGRAM DEVELOPED BY THE TCWP ON COMMODITIES AND EXPORT CONTROLS. THIS PROGRAM FOCUSED ON A BETTER UNDERSTANDING OF THE FACTS AND ANALYSES OF THE PROBLEMS IDENTIFIED AS AREAS OF REAL CONCERN TO THE OECD MEMBER COUNTRIES. HOWEVER, IN THE LIGHT OF DISCUSSIONS AND INTERNATIONAL NEGOTIATIONS ON COMMODITY TRADE IN FORUMS SUCH AS THE MTN, THE DEMANDS OF DEVELOPING COUNTRIES FOR ACTION AND THE PROPOSALS IN UNCTAD, IT WAS AGREED THAT THE WORK PROGRAM SHOULD ALSO INCLUDE EXAMINATION OF POSSIBLE POLICY OPTIONS AVAILABLE TO OECD MEMBER COUNTRIES.

THE EC AND JAPAN DEPEND ON IMPORTS FOR A MUCH LARGER PERCENTAGE OF THEIR RAW MATERIAL NEEDS THAN THE US. THE TIGHT SUPPLY SITUATION OF THE LAST TWO YEARS HAS FOCUSED THEIR ATTENTION ON SUPPLY/ACCESS PROBLEMS AND APPROACHES TO SUCH PROBLEMS. THE EC COMMISSION IS INCLINED TOWARD COMMODITY AGREEMENTS AND SPECIAL BILATERAL AND BLOC ARRANGEMENTS AS A MEANS OF ASSURING COMMODITY SUPPLIES.

THE EC WILL SOON SIGN THE LOME CONVENTION WITH 46  
ASSOCIATED AND ASSOCIABLE STATES IN AFRICA, THE CARIBBEAN  
AND THE PACIFIC COVERING INTER ALIA SPECIAL PREFERENTIAL  
ACCESS TO EC MARKETS, NET LEVELS OF FINANCIAL ASSISTANCE  
AND AN INDUSTRIAL DEVELOPMENT FUND. IN ADDITION IT  
INCLUDES AN EXPORT EARNINGS STABILIZATION SCHEME (A  
COMMODITY-BASED COMPENSATORY FINANCING SCHEME) WHICH  
PROVIDES FOR PAYMENTS BY THE EC TO GOVERNMENTS OF ITS  
ASSOCIATED STATES WHEN A COUNTRY'S EARNINGS FROM CERTAIN  
COMMODITY EXPORTS (NOT INCLUDING MINERALS, EXCEPT IRON  
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ORE) TO THE EC FALL BELOW A REFERENCE LEVEL.

CANADA AND AUSTRALIA HAVE BEEN RELUCTANT TO BECOME  
ENGAGED IN OECD COMMODITY DISCUSSIONS BECAUSE THEY SHARE  
AN INTEREST WITH THE LDCS IN INCREASING THE PROCESSING  
OF THEIR RAW MATERIAL EXPORTS AND FEAR COMPROMISING THEIR  
INTERESTS IN THE OECD FRAMEWORK. END TEXT

2. TREASURY CONSIDERS THAT LANGUAGE IN ABOVE TEXT IS  
MORE FORTHCOMING THAN U.S. HAS EVER BEEN AND THUS  
REPRESENTS A MAJOR SHIFT IN USG POLICY. TREASURY DOES  
NOT WANT TO GO THIS FAR, BELIEVING THAT IT ENCOURAGES  
THE IDEA COMMODITY AGREEMENTS, AND BELIEVES THE QUESTION  
SHOULD BE CONSIDERED BY SENIOR OFFICIALS BEFORE THIS  
STEP IS TAKEN. INGERSOLL

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